Efficiency and Effectiveness of *Waqf* Institutions in Malaysia: Toward Financial Sustainability

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Abstract

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Financial health is crucial to the continuous existence and operation of any organisation. It is even more essential in the case of *waqf*. Accordingly, determining the financial strength and vulnerability of *waqf* institutions is particularly very significant and congruent to *waqf's* perpetual existence. Using content and ratio analysis, the 2008 annual reports of state *waqf* institutions were examined to determine their transparency and performance accountability. Four essential financial health ratios were computed: the equity balance ratio, the revenue concentration index, the administrative costs ratio and the operating margin ratio. The findings indicate that the institutions were, on average, satisfactorily efficient and effective in administering and managing *waqf* properties. Although this is the first humble attempt, the study provides an insight into the efficiency and effectiveness of the Malaysian institutional *mutawallis* in carrying out their tasks, a guide for policy makers on the formulation of policies for the revitalisation of *waqf*, contributes to the financial sustainability literature and provides a reference for researchers and students.

Key words: *Waqf* Institutions, efficiency, effectiveness, financial health model, Malaysia

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1. Introduction

Waqf, a perpetual voluntary charitable act (Sadeq, 2002), is one of the mechanisms in the Islamic economic system set, among others, to promote equitable and just distribution of wealth. This form of charity assures the donor a continuous reward in the afterlife for as long as the useful years of the underlying asset remain. The contributions of *waqf* in the political and socio-economic growth and development of Muslim countries and communities over the years were so pertinent so much so that it has been labelled as the most visible evidence of charity in Islam (Singer, 2008). More importantly, *waqf* assets were instrumental in providing social and economic safety valves through its role in promoting religion, education, shelter, health, food security and rural-urban transformation. In the tenth century, *waqf* replaced zakat as the vehicle for financing social economic development in Islamic societies (Singer, 2008).

Despite its overwhelming role in supporting social, cultural, economic and religious functions (Mohd Akhyar, Maliah and Nor Suad, 2007; Abul and Abdus Shahid, 2010), previous studies reveal that the history of *waqf* has been tempestuous (Cizaka, 1998; Bremer, 2004; Osman, 2010). Vast *waqf* institutions and properties were and still are at the mercy of mismanagement, corruption, abuse, misuse and total neglect (Arrif, 1991; Hoexter, 1998; Bremer, 2004; Abul and Abdus Shahid, 2010). Given this, it is interesting to examine if, indeed, the same holds true for *waqf* insitutions in Malaysia. More specifically, our study attempts to investigate the performance by determining the efficiency and effectiveness of such institutions. The study contributes to existing literature in several important respects. First, the efficiency and

effectiveness performance framework developed here, being the first of its kind, may help determine financial health of other *waqf* institutions as it is crucial to the continuous existence and operation of these organisations. More importantly, given that a *waqf's* perpetual existence lies in its financial strength, determining its performance is crucial. Second, prior work examining performance of religious organisations has rarely focused on the institution of *waqf*. Third, the growing scholarly interest in the management (or mismanagement) of *waqf* is an issue that should be addressed through empirical work. Finally, the results of our study may provide a platform for future studies on *waqf*. The rest of the paper is organised as follows. The next section provides the literature review while section 3 is an overview of *waqf* management in Malaysia. Section 4 discusses the concept of accountability and its importance for *waqfs* while section 5 focuses on data collection and the findings. Section 6 concludes.

2. Literature review

Financial health is crucial to the continuous existence and operation of any organisation. It is even more essential in the case of *waqf* because productive endowed assets are left idle due to insufficient revenue to sustain operational costs (Chowdhury, Ghazali and Ibrahim, 2011). Prior studies on *waqf* focusing on the management aspects of such organisations concentrated on contemporary managerial, administrative and governance issues, highlighting poor structure, mismanagement, corruption, abuse, neglect and other administrative lapses warranting recommendations for revival of *waqf* (Zainuddin, 1998; Abdul Rahim, Mohammad and Ismail, 1999; Siti Mashitoh, 2006a). Specific to accounting, previous research on *waqf* examined record-keeping and documentation, the need for the development of *waqf* accounting standards,

accountability and transparency issues as well as performance of these institutions. Our focus is on the last strand of research-that is on accounting and accountability.

Abdul Rahim, Mohammad and Ismail (1999) explored the accounting and administrative practices in State Islamic Religious Councils (SIRCs). Their study found, among other things, evidence of poor documentation and record keeping, absence of sound accounting system and seemingly chronic accountability lapses. As a result, they called for improvement in the management of *waqf* and the establishment of proper accounting procedures. For the betterment of *waqf* management, Marsoof (2004) also urged for the advancement in accounting standards and procedures. He made this recommendation following his discovery of poor management of *waqf* assets in his research on *waqf* administration in Sri Lanka. Extending the preliminary study of Abdul Rahim, Mohammad and Ismail (1999), Rokyah (2005) investigated the status of financial reports and the relationship between financial procedures and *waqf* accounting. Through this study she determined the extent of *waqf* disclosure in SIRCs. In her findings, she noted the existence of overdue and out of date financial reports in most of the SIRCs and very few of them had satisfactory level of disclosure. In affirmation to the recommendation of Abdul Abdul Rahim, Mohammad and Ismail (1999), she advocated the need for proper reporting standards and guidelines.

Hisham (2006) conducted a case study of the Federal Territory SIRC to examine its *waqf* accounting practices in greater depth. The results of this exploratory and descriptive study revealed some degree of improvement in keeping records in this particular SIRC. Nonetheless,

he lamented that there was no dedicated financial statements for *waqf*. Accounting for *waqf* was embedded in the accounts of the SIRC. To compound it all, his findings also depict that there was no segregation of the various types of *waqaf*. He then suggested that *waqf* accounting practices should be based on the Statement of Recommended Practices (SORP 2005) for charities in the UK. Concerned with the same accounting and managerial issues of *waqf*, a replication of this study was undertaken a year later by Ihsan (2007) to scruitnise the accounting practices of two Indonesian *waqf* institutions. His examination discovered the lack of uniform accounting practices between these two institutions. As a consequence of this, there were accountability and transparency lapses in the management and accounting of *waqf*. This led Ihsan and Adnan (2009) to propose the kind of information that should be provided by the *mutawallis* to various stakeholders.

In response to the earlier calls for the proper accounting of *waqf*, Adnan (2005) took the challenge to develop *waqf* accounting standards. He suggested two alternative accounting and reporting framework of *waqf* accounting on the basis that *waqf* can operate as a social organisation (non-profit) as well as a commercial organisation. He asserts that it is appropriate to apply accounting for nonprofit organisations to the former, whereas accounting for commercial organisations is more applicable to the latter. Still on accounting standards, Ihsan, Ayedh and Ibrahim (2006) undertook a comparative study between *waqf* and charities in the UK. Their findings suggested that some aspects of Charity Commission proposals such as internal financial controls, transparency and reporting, management of funds and code of good governance should be adopted for *waqf* institutions. Similarly, Mohd Akhyar, Maliah and Nor Suad (2007) shared

their thoughts with regards to the development of a conceptual framework and accounting standards for *waqf* institutions based on a review of some related accounting standards on charity organisations, integrated with Islamic values. Given the uniqueness of *waqf* institutions, they proposed some particular accounting concepts (definition, recognition, measurement, presentation and disclosure) that align with AAOIFI's statements of Financial Accounting, SORP 2005.

Yaacob and Nahar (2011) most recently undertook a study to empirically investigate the accounting, reporting and management practices of a Malaysian cash *waqf* management institution over a six year period, from 2000 to 2005. Using archival documentation review and analysis, they found that the particular *waqf* institution has discharged its accountability satisfactorily. Also, on the basis of the cash *waqf*'s return on investment having an increase by more than 100% from 2003 onwards, they concluded that this is an indication of good management. However, they contended that there is more room for improvement.

Pirasteh (2011) investigated the economic and operational efficiency of government and private-administered *waqf* in Iran. They measured these using two ratios: the ratio disbursement to proceeds (which they termed the objective achieved index) and the ratio of remaining balance from years to total earnings (which they termed the expected income achieved index).The former measures the extent of achievement to which the institution is fulfilling its objectives while the latter measures the degree to which the institution is able to maximise the generation and collection of *waqf* income while minimising uncollectable earnings. The findings revealed that

privately-managed *waqf* performed better than government-managed *waqf*. However, both failed to meet donors' specified objectives. Sulaiman, Adnan and Nor Suad (2009) documented the development of the International Islamic University Malaysia's *waqf* Fund (IIUMWF) from its inception in 1999 to 2008 as well as its accounting practices. Additionally, they also examined issues on disclosure and performance of the IIUMWF. Specifically, the authors measured the efficiency of IIUMWF for the years 2003, 2004 and 2005 by focusing on three ratios: programme expenses to total expenses ratio, investment income to average investment ratio and the ratio of total fundraising expenses to total funds raised.

Evidently, a great deal of interest has been shown by researchers on *waqf*. However, there has been no single empirical study examining the efficiency and effectiveness of *waqf* institutions in Malaysia. The study by Sulaiman, Adnan and Nor Suad (2009) only focused on one private *waqf* institution. More importantly, their study only examined the efficiency of *waqf*. Accordingly, the present study attempts to address this by looking at both the efficiency and effectiveness of *waqf* institutions. Essentially, efficiency and effectiveness are ultimately interrelated. There can be no efficiency without effectiveness since it is imperative for the organisation to excel in doing the right thing instead of doing well in the wrong direction (Mihaiu, Opreana and Critescu, 2010). More importantly, efficiency and effectiveness, according to Ireland (1999) and Abraham (2003) are primarily concerned with how the organisation can sustain its operations in delivering its mission. It therefore follows that financial efficiency and effectiveness depend upon organisation's financial condition and vulnerabilities (Keating, et al., 2005). Given that the foundation of efficiency and effectiveness lies in the financial

sustainability or vulnerability of an organisation, we have used Tuckman and Chang's (1991) framework to determine the financial sustainability of *waqf* institutions in Malaysia. Additionally, while Sulaiman, Adnan and Nor Suad (2009) focused on a particular private *waqf*, our study will examine the performance of SIRC *waqf* institutions in Malaysia. Most importantly, measuring the performance of *waqf* institutions may be regarded, in some way, as examining the extent these institutions discharge their accountability.

3. Accountability of *waqf* institutions

Simply put, accountability is the provision of account of the actions for which individuals or organisations are held responsible under the basic assumption that required expectations and values have been determined and expressed through rules, procedures and standards (Rabrenović, 2009). *Waqf* institutions, as institutional trustees, are accountable for the management of *waqf* properties based on pre-established expectations as expressed through the *waqf* deed by the *waqif* (donor or funder). The position of *waqf* deed makes it a very important foundation, to begin with, for holding the institutions accountable.

Other compelling reasons make accountability a necessary ingredient for the governance of *waqf* institution. Firstly, apart from the stipulations in the *waqf* deed, the institutions operate without any formal check and balance by the founder (in most cases, the founder is even a deceased). This fiduciary relationship coupled with the beneficiaries' trust on *waqf* trustees warrant that accountability be discharged satisfactorily to ensure the continuity of the *waqf* arrangement (Laughlin, 1996). Secondly, given the fact that *waqf* properties are for public benefit (Ihsan and

Shahul, 2011), the public and other stakeholders deserve to be kept informed as to how resources are managed to yield greater benefit. Accordingly, accountability becomes the foundation for measuring, assessing and reporting trustees' performance (Cutt and Murray, 2000). Lastly, *waqf* is a religious voluntary act motivated by one's desire for recurrent reward hereafter. Despite this motivation, *waqf* institutions rely, to a great extent, on public confidence and trust for the continuous flow of support to sustain *waqf* activities. This necessitates that *waqf* discharge its accountability adequately (Sinclair, Hooper and Ayoub, 2010) and subsequently boost the trust and confidence of donors and the public.

Researchers, donors, the public and other stakeholders are increasingly demanding to know what is actually happening to resources committed in charitable organisations, including *waqf* institutions (Iwaarden et al., 2008). For instance, funders and donors demand that charitable organisations be held accountable for integrity, efficiency and impact of the funded programmes while beneficiaries put pressure on the organisations to live up to expectation about the championing of socially determined development programmes instead of imposing their own priorities (Basri and Abdul Khalid, 2011). These demands present a challenge to the trustees to adopt and implement best practices in *waqf*. The trustees must therefore respond to this call by creating a reliable structure of accountability mechanisms that would enable *waqf* stakeholders to evaluate whether the entrusted tasks are being carried out in accordance with pre-established *waqf* deed (Rabrenović, 2009). Osman (2010) argues that for *waqf*, holistic accountability is most pertinent. This form of accountability balances between upward (donors, funders, regulators, etc.) and downward (beneficiaries, community, etc.) accountability. It leads to the

engagement and participation of beneficiaries and other constituents in running the *waqf* (Osman, 2010). The bottom-line is that *waqf* accountability should not be discriminatory; it should encompass all related stakeholders (Adnan, Maliah and Nor Suad, 2007; Ihsan and Adnan, 2009). More importantly, holistic accountability encompasses the concept of self-accountability. This self-accountability is the result of the manifestation of primary accountability to Allah. As humans we are primarily accountable to Allah for all entrusted resources and secondarily accountable to fellow humans by virtue of our contractual relationships (Sulaiman, Adnan and Nor Suad, 2009).

Stewart (1984) classified areas of accountability into probity and legality, process, performance, programme and policy. The focus of this study is on performance accountability of the commercial activities of *waqf* institutions. As indicated elsewhere in the paper, *waqf* institutions are accountable for their financial performance as to the resources entrusted to them by donors (Ihsan and Adnan, 2009). Thus, performance is the result of instantaneous pursuit of effectiveness, efficiency and the economic use of entrusted resources (Mihaiu, Opreana and Critescu, 2010) for the maximisation of sustainable output to intended beneficiaries (objectives). Accordingly, the demonstration of accountability could be achieved through effectiveness and efficiency dimensions (e.g. Better Business Bureau [BBB], 2001; Sulaiman, Adnan and Nor Suad, 2009; Wahab and Abdul Rahman, 2011). This is supported by Connolly and Hyndman (2003) when they said that performance of non-profit organisations should be judged in terms of efficiency and effectiveness.

While efficiency is the conversion of inputs into outputs, effectiveness is the relationship between output and objectives. Inputs are the organisation's resources that are utilised for the attainment of desired output. Outputs are the result of transformed inputs. The objectives are the goals of the organisation necessary for the realisation of its mission. Efficiency takes into consideration the attainment of result in relation to the resources used (Mihaiu, Opreana and Critescu, 2010). An organisation is said to be efficient if it obtains maximum output with a given level of resource. It could also be the use of minimum resource at a certain level of output. From both perspectives, the efficiency of *waqf* institution is viewed as how well it employs endowment assets in the course of its day-to-day activities to generate more revenue to satisfy intended beneficiaries. On the other hand, the degree to which an organisation realises its goals determines its effectiveness (Lane, 1995). Effectiveness ensures that measureable objectives are in place with a clear process to evaluate the success of implemented program(s) in fulfilling the goals of an organisation and also identifies ways to address deficiencies. There are two paramount types of effectiveness: administrative and programme effectiveness (Poister, 2003). Whereas administrative or managerial effectiveness is concerned with doing the right thing towards achieving predefined objectives, programme effectiveness deals with the degree to which spending on programmes are congruent with organisational goals. All in all, effectiveness is all about doing the right things while efficiency is doing things right.

In the context of *waqf*, donated *waqf* assets come with specific objectives specified by the donor. The achievement of such objectives due to programmes undertaken or as a result of its administrative activities is the effectiveness of the institutions. Both efficiency and effectiveness

are very important to *waqf* management. They ensure that the trustees (*mutawallis*) are indeed judiciously using resources efficiently in discharging their responsibilities according to the *waqf* deed (doing the right thing).

4. Overview of *waqf* management in Malaysia

In Malaysia, *waqf* is under the auspices of State Rulers (*Sultan)*. The SIRCs assume managerial and trusteeship mandates through delegated authority from their respective Rulers. This is further legitimised through various enactments. To date, almost all the 14 States have enactments/ordinances dictating the SIRCs as the sole trustee of *waqf* assets. To discharge their responsibility, each SIRC has established a dedicated *waqf* unit/division or an independent agency to carry out *waqf* related activities within its jurisdiction. These institutions are hereafter referred to as SIRC *Waqf* Institutions (SWIs).

In addition, the *waqf* arm of the Department of Awqaf, Zakat and Haj (JAWHAR) provides financial and non-financial assistance (guidelines, funding and training) to the SWIs. The department was commissioned in October 2004 as one of the departments under the Prime Minister’s Department. Its objectives are to enhance the quality of service delivery, reinforce *waqf, zakat* and *haj* for socio-economic development and to ensure good governance as well as the effective planning, coordination and implementation of government policies and development programs for *Awqaf, Zakat* and *Haj* (Sohaimi and Syarqawi, 2008). Because of its limitation as a government body to directly carry out *waqf* commercial activities, JAWHAR established the National Endowment Foundation (Yayasan Waqaf Malaysia (YWM)) to

exclusively focus on this commercial aspect of *waqf* (Sohaimi and Syarqawi, 2008). Today, YWM functions not only as the main national endowment foundation but also the coordinator of the activities of the SWIs. However, it must be noted that, JAWHAR and its YWM have no enforcement power over the SWIs. The relationship between the SIRCs and JAWHAR with regards to *waqf* management and control is represented in the following structure:

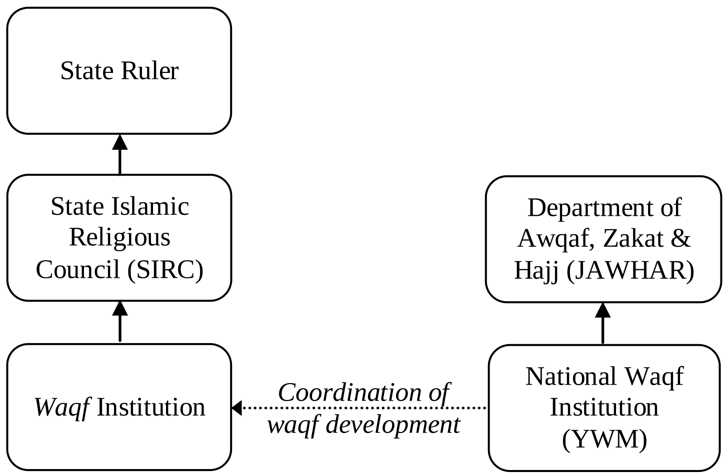

FIGURE 1: *Waqf* management structure

As seen in Figure 1, the State Ruler's delegated authority is exercised by the SIRC to manage and administer *waqf* properties. This led to the establishment of *waqf* units by SIRCs within their administrative structures. On the other hand, the right side of the diagram depicts the role played by JAWHAR through YWM. JAWHAR's role is based on the government's economic development commitment expressed in the Malaysia Plan (MP). The plan details Malaysia's economic development plan over a five year period. The role and the establishment of YWM were conceived in the Ninth Malaysian Plan (9^{th} MP) as stated in paragraph 16.62, page 348 of the plan, as quoted below:

> *Wakaf*, *baitulmal* and zakat resources will be appropriately mobilized towards enhancing the development of *Bumiputera* and other Muslims. During the planning period, emphasis will be given to develop *wakaf* land within the commercial urban areas in the Johor Bahru, Klang Valley and Pulau Pinang. The development programme will involve integrated redevelopment of housing settlements with infrastructure and economic facilities, including business and industrial premises on wakaf land. The Jabatan Wakaf, Zakat and Haji [JAWHAR] will coordinate the establishment of a new entity [YWM] with the participation of State Religious Islamic Councils to implement programmes to develop *wakaf* and *baitulmal* land into viable economic investments and thus, contribute to the development of the BCIC [*Bumiputera* Commercial and Industrial Community].

The *Bumiputera* development agenda through the development of *waqf* assets is one way of increasing the participation and ownership of *bumis* (plural *Bumiputera*) in the corporate sector. This is undertaken to minimise wealth disparity between the *bumis* and non-*bumis*. This is clearly indicated in the 9th MP as follows: The following excerpts attest to this claim:

> Wakaf land and properties under the state religious Islamic authorities will be developed to tap their productive potential as well as to spawn new entrepreneurs. [para 1.44, page 36].
>
> Development of commercial assets such as hotel and business premises on wakaf land *will be expanded to increase Bumiputera ownership of non-financial assets*. A strategic plan will be drawn up to ensure that the income generated from the development of wakaf land will enable state religious authorities to be more self-reliant in developing new *wakaf* land [page 64-65].

It is obvious from the above extracts that the motive of supporting the SIRCs is to allow government to tap the vast asset potential of *waqf* in the country for its poverty alleviation programme. The government, however, reiterated its commitment to devise a strategy for the SIRCs to be self-dependent in developing new *waqf* land. Sohaimi and Syarqawi, (2008) pointed out that *waqfs* land are leased to the government by the SIRCs for development activities. For these development activities, the government allocated RM250 million in its 9th MP (2006-2010). To continue the execution of 10 development projects under the 9th MP, the government, through JAWHAR, allocated RM72.76 million in its first rolling plan under the 10th MP (2011-2015) for the period 2011/2012. Until 31 December 2011, a total of 7 projects were completed whilst 3 projects were expected to be completed in 2012 based on its second rolling plan, with a

total allocation of RM36.87 million. In its 2010 Budget Statement, the government allocated RM20 million for the development of *awqaf* lands within the premises of state mosques.

In sum, the management of *waqf* is carried out by the SIRCs who have been empowered by their respective state enactments as the sole trustees and custodians of all *waqf* properties. Due to the lack of financial and managerial expertise of SWIs, the government has taken the initiative to develop the large vast of *waqf* land to drive economic growth and development through poverty alleviation.

5. Data collection and findings

To enable the assessment of accountability of the trustees, clear and transparent reporting is required (Ihsan and Shahul, 2011). It is only through good reporting of accounting information that the efficiency and effectiveness performance accountability elements could be evaluated by the user. In effect, evaluating the extent of financial performance accountability largely depends on the disclosure of financial information. Ideally, these information should be disclosed in the annual reports of the *waqf* institutions. However, as will be explained later, the annual reports of the SIRCs contain very minimal information that one can use to assess the performance of such institutions. Nonetheless, we proceeded with the little that we got.

Using information from the audited financial reports of the SWIs and adopting Tuckman and Chang's (1991) model on nonprofit financial sustainability, we determined the financial vulnerability of SWIs in Malaysia. As may be recalled, the efficiency and effectiveness of an

organisation depend upon the financial condition and vulnerabilities of the institution (Keating, et al., 2005). Thus, the assumption made here is that the financial sustainability of an organisation does reflect on how efficient and effective the organisation is.

Audited financial report is regarded as an important source of financial data since it is the paramount document used to disseminate information about the financial standing and other issues relating to the organisation (Froelich, Knoepfle and Pollak, 2000). Furthermore, audited means that the report has been verified beyond numbers provided by the organisation and the auditor has examined additional documentation before arriving at a conclusion (Froelich, et. al, 2000). Thus, the annual reports of the *waqf* institutions used in this study were considered reliable and credible sources of data. Additionally, interviews were conducted with selected individuals in order to gain a richer understanding about the commercial operations of the institutions and to further seek clarifications about the disclosure items for validation purposes (McNamara, 1999). Initially, the intention was to examine all 14 SWIs. However, as explained in the following section, we only managed to examine 7 SWIs.

The sample

The annual report of the SWIs of Negri Sembilan and Sarawak could not be obtained. Although the most recent accounting period is 2011, we focused on annual reports of 2008 as we had the most number of annual reports for this year---we were able to get the audited reports for the 11 SWIs. In terms of disclosure of audited financial statements, only Pulau Penang and Terengganu have separate *waqf* income statements and balance sheets. The other states have

either one of the statements separated or combined with other institutions like *zakat* and *baitulmal*. For example, the SWIs of Johor and Pahang have a separate *waqf* balance sheet while Kelantan has a separate *waqf* income statement. In the case of combined statements, we tried to extract and reconstruct the *waqf* statements from the accompanying notes to the consolidated accounts, where possible. Taking all these into account, we ended up with 7 SWIs consisting of SWIs of Selangor, Johor, Kelantan, Melaka, Pahang, Pulau Pinang and Terengganu. This is clearly a limitation of our study.

Findings

As indicated earlier, the financial sustainability and vulnerability of the *waqf* institutions was investigated using the financial health model developed by Tuckman and Chang (1991). Four ratios were used to determine the financial sustainability and vulnerability of an organisation:

Table 1: Financial vulnerability and sustainability ratios

Measure	**Ratio**
Equity balances	Ratio of equity to revenue
Revenue concentration	Square of the percentage share that each revenue source represents of the total revenue
Administrative costs	Ratio of administrative costs as a percentage of total costs
Operating margin	Net income (or loss) divided by total revenue

Source: Tuckman and Chang (1991).

According to the model, a SWI may be financially vulnerable when the results of all of its four ratios are low. The results of the above computed ratios are tabulated below (next page).

Table 2: Results of financial vulnerability and sustainability ratios

Variables	***Code***	**SWIs**						
		Selangor	**Johor**	**Kelantan**	**Melaka**	**Pahang**	**Penang**	**Terengganu**
Administrative expenses	A	376,296	NA	NA	433,369	NA	546,503	108,772
Total expenses	B	476,904	2,476,374	3,098	670,556	89,801	1,024,512	251,516
Total revenue	C	608,143	3,819,965	115,515	981,948	28,212	1,705,163	442,758
Surplus/(Deficit)	D	131,239	1,343,591	112,417	311,392	(61,589)	680,651	333,763
Equity (Funds)	E	8,060,959	16,995,938	764,543	5,297,017	1,405,003	5,958,941	5,725,949
Ratios								
Equity balance	**E/C**	13.26	4.45	6.62	5.39	49.80	3.49	12.93
Administrative costs	**A/B**	78.90%	NA	NA	64.63%	NA	53.34%	43.25%
Revenue concentration		0.35	NA	0.67	0.52	0.91	0.75	0.38
Operating margin	**C/D**	21.58%	35.17%	97.32%	31.71%	(218.31%)	39.92%	75.38%

Note. NA= Not Available. All monetary values are expressed in Malaysian Ringgits.

Equity balances

Generally, an organisation is financially sustainable when the ratio of equity to revenue is high. The drawback here is that Tuckman and Chang (1991) did not suggest any standard benchmark for this ratio. Equity, as used in this study, included net assets or the accumulated *waqf* funds of the SWIs. The SWIs of Johor, Kelantan, Melaka and Penang had their equities less than 10 times their respective revenues, thus indicating their vulnerability as compared to SWIs of Selangor (13.26), Terengganu (12.93) and Pahang (49.80). With its equity being more than 49 times its revenue, the SWI of Pahang appears to be the most financially sustainable. The gap is so wide that none of the institutions come close to it. On another note, one of the basic pillars of *waqf* requires that the equity must remain intact. As such, its assets are restricted, to some extent. Thus, such assets cannot be used to cover deficits since this would have amounted to a reduction in *waqf assets.* It is only the accumulated surpluses that can be utilized to sustain operations or

replace lost revenues as a temporary measure. The income statements of the SWIs, with the exception of Pahang, indicate that surpluses were transferred to accumulated fund or *waqf* fund. As for SWI Pahang, surpluses were transferred to "general assistance fund". Thus, one may deduce that surpluses were accumulated annually as buffers to cushion operational financial distress. Accordingly, the equity balance ratios may be regarded as falling within the sustainability region—an indication that these SWIs are financially sustainable (or not financially vulnerable).

Revenue Concentration

The revenue concentration index is the square of the percentage share that each revenue source represents of the total revenue. An index close to "zero" for each source of revenue indicates that a *waqf* institution had "equal" revenues from diverse sources and this means that the organisation is significantly healthy. According to Tuckman and Chang (1991), a non-profit organisation is less vulnerable to revenue downturns if its revenue sources are diverse because an economic downturn may be more likely to affect one revenue source and not all others. However, an index close to "1" for any revenue source indicates an SWI severely at risk as this is an indication that it is dependent on one single source of revenue. Table 3 (on page 21) presents the results.

Table 3: Revenue concentration index

Sources	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Rental	0.09	NA		0.16	NA	NA	
Waqf land			0.01			0.73	0.31
Waqf house			0.01				
Waqf store			0.65				
Investment		NA	NA	NA	NA	NA	0.01
Shares						0.00	
Mudarabah	0.07				0.90		
Fixed deposits						0.02	
Current accouts	0.00	NA	NA	0.00	0.00	0.00	0.01
Fees		NA	NA	NA	NA	0.00	NA
Agriculture		NA	NA	NA	NA	0.00	NA
Sales		NA	NA	NA	NA	NA	0.00
Others	0.18	NA	NA	0.36	NA	0.00	0.05
Concentration	**0.35**	**NA**	**0.67**	**0.52**	**0.91**	**0.75**	**0.38**

Note. NA= Not Available or Not Applicable.

SWI Selangor appears to have an index close to zero for each of its revenue source. Similarly, SWI Terengganu appears to be financially healthy as its sources of revenue are diverse although it is relying on rental from *waqf* land more than other revenue source. Although SWI Penang had diverse sources, the distribution was not even. Like SWI Terengganu, it is heavily dependent on rental from *waqf* land. Further, as the index for this particular source of income is rather high at 0.73, any economic downturn that affects rental properties will put SWI Penang in a vulnerable position, financially. The same can be said for SWI Kelantan. With an index of 0.65 for the rental of *Waqf* store, it would be in a precarious position, financially, if for some reason, the store is not able to be leased. The least diversified institution was SWI Pahang which significantly derived its entire revenue from *mudarabah* investments. Its index of 0.91 is an indication that it was highly vulnerable and severely at risk in 2008.

Overall, it can be observed that although the SWIs had diversity of revenue sources, their distribution was not even. As indicated earlier, the index requires that for a *waqf* institution to be financially sustainable, it must have a balanced distribution of income from multiple sources. This would enable the institutions to absorb financial shocks and thus carry out their *waqf* activities (Yan, Denison and Butler, 2009).

Administrative Costs

The administrative cost ratio is the ratio of administrative costs as a percentage of total costs. This ratio determines the ability of an organisation to control expenditure and the probable impact of such control on service delivery. An SWI with high administrative costs is assumed to have a greater opportunity to reduce its programme administrative (programme) costs without a reduction in the number of programmes undertaken. Accordingly, in line with this argument, SWIs with low administrative cost ratios would be more vulnerable and can be categorised as "at-risk" SWIs. This is because for such SWIs, a further reduction in administrative costs may affect the quality of its services. Administrative costs in this study includes managerial and general costs such as governance, management, record-keeping, office supplies and services, office repairs and maintenance, professional services and honorarium, office related depreciation, doubtful debts, and other related administrative activities. Table 4 (on page 23) presents the results.

Table 4: Administrative costs ratio

Variables	Code	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Admin. costs	A	376,296	NA	NA	433,369	NA	546,503	108,772
Total expenses	B	476,904	2,476,374	3,098	670,556	89,801	1,024,512	251,516
Ratio	**A/B**	**78.90%**	**NA**	**NA**	**64.63%**	**NA**	**53.34%**	**43.25%**

Note. NA= Not Available. All monetary values are expressed in Malaysian Ringgits.

SWI Selangor had the highest and SWI Terengganu had the lowest ratio, thus implying that the former had the highest capacity and diverse opportunities to contain expenditure without affecting its programme and service delivery while the latter is in the "at-risk" category. SWI Pahang had a percentage of just a little above 50%, thus indicating that it still has a buffer against reduction in service delivery. On the extreme end, the SWI of Terengganu had a ratio below 50%. This meant that it is left with very few opportunities to reduce expenditure since this may affect its services However, in the case of SWI Terengganu, the lower administrative costs might be due to the institution's administrative costs being partly covered by its state treasury. However, we were not able to discern such information from its annual report. Further, given that Tuckman and Chang (1991) did not specify what a high or low administrative cost ratio is, a possible benchmark that could be applied is that given by Charity Facts[1]. According to this, a less than 10% ratio may mean that investment in administrative structure is not sufficient. However, Sorensen and Kyle (2007) suggested that the programme expenses to total expenses ratio should be at least 65% (Better Business Bureau's Wise Giving Alliance Standard 8). Taking both studies into account, one may conclude that SWIs should at least have a ratio of 50%. As shown in table 4 above, the SWIs of Selangor, Melaka, Penang and Terengganu have

[1] http://www.charityfacts.org/resources/student_and_researcher_information/index.html

ratios higher than 10%, the highest being 78.90% and the lowest being 43.25%. This means that most of the SWIs in the study have expended adequate amount of resources on administrative costs except for SWI Terengganu.

The administrative ratio needs to be interpreted with care. Although higher administrative costs ratio may allow the *waqf* institutions to cut costs without affecting programme delivery, the higher ratios may equally signal that too many resources were committed on administrative expenses and thus fewer funds available for programme services. In such a case, the high administrative cost ratio may not necessarily mean that the SWI is financially sustainable. Perhaps a scrutiny of each administrative cost is the answer to this. However, given the limited information disclosure by SWIs, this is rarely possible. It was observed that there was no income statement in the audited financial statements of SWI of Johor. Total revenues and expenses were obtained from its statement of changes in equity for the year 2008. Therefore, details of its income and expenses were not available. For SWI Kelantan, its income statement disclosed "*group waqaf fund expenses"* (RM3,098) as the only expenditure item without any details. Given that its main *waqf* activity (as claimed by the statement) is rental, one may assume that this expense item refers to rental expense. Additionally, the audited income statement of SWI Pahang disclosed only "*waqaf aid/assistance"* as its total expenses without any further information. The assumption made here is that this expense represents the amount disbursed from its investment activities.

Generally, in Malaysia, it is possible for some SWIs institutions to have minimal or no administrative expenses because these and other *waqf* expenses are covered either by the State Treasury or the government. This was confirmed during a phone interview with the research and products division manager of Yayasan *Waqaf* Malaysia and during a face-to-face interview with the *waqf* research and investment manager of SWI Selangor. The low administrative expenses are also due to the fact that most SWIs have dedicated and qualified staff specifically to handle the affairs of *waqf* only very recently (Rokyah, 2005).

Operating margins

This ratio is calculated using net income (or loss) divided by total revenue. The higher it is, the greater the opportunity for the SWI to draw on the surplus should there be a decline in revenues in subsequent periods. Accordingly, a SWI will be financially stable if it has a high operating margin. As shown in Table 5, SWI Kelantan had the highest at 97.32%. This was followed by Terengganu at 75.38%. The SWIs of Penang, Johor, Melaka and Selangor all had a percentage that is below 50%. However, given the positive ratios, the results indicate that these SWIs appear to be financially sustainable.

Table 5: Operating margin ratio

Variables	**Code**	**Selangor**	**Johor**	**Kelantan**	**Melaka**	**Pahang**	**Penang**	**Terengganu**
Surplus/ (Deficit)	C	131,239	1,343,591	112,417	311,392	(61,589)	680,651	333,763
Total revenue	D	608,143	3,819,965	115,515	981,948	28,212	1,705,163	442,758
Ratio	**C/D**	**21.58%**	**35.17%**	**97.32%**	**31.71%**	**(218.31%)**	**39.92%**	**75.38%**

Note. All monetary values are expressed in Malaysian Ringgits.

The negative operating margin of Pahang puts this SWI severely at risk as there is no way that it build equity. Consequently, this may signal a financial sustainability crisis.

6. Conclusion

The study examined the financial accountability of SWIs in Malaysia through determining its financial sustainability. More importantly, given that the efficiency and effectiveness of an organisation are primarily concerned with how the organisation can sustain its operations in delivering its mission, our study may also be regarded as a study examining efficiency and effectiveness of SWIs. The financial health model developed by Tuckman and Chang (1991) is used to determine the financial vulnerability of SWIs. In this regard, the four components of financial sustainability and vulnerability measures- equity balances, administrative costs, revenue concentration and operating margin- were computed.

Overall, the results indicate that two of the institutions (SWIs of Selangor and Terengganu), were financially sustainable in all the four components in that they have adequate level of equity balances and reasonably high administrative costs, desired revenue concentration (close to zero) and positive operating margins (see Table 6 below).

Table 6: The summary of the financial vulnerability and sustainability ratios results

Ratios	Selangor	Johor	Kelantan	Melaka	Pahang	Penang	Terengganu
Equity balance	13.26	4.45	6.62	5.39	49.80	3.49	12.93
Admin. costs	78.90%	NA	NA	64.63%	NA	53.34%	43.25%
Revenue concentration	0.35	NA	0.67	0.52	0.91	0.75	0.38
Operating margin	21.58%	35.17%	97.32%	31.71%	-218.31%	39.92%	75.38%

Note. NA= Not Available.

The SWI of Penang was financially sustainable in three components: equity balance, administrative cost and operating margin. The SWI of Johor, Kelantan, and Melaka were financially sustainable in equity balance and operating margin but financially vulnerable in relation to revenue concentration. Lastly, the SWI of Pahang was financially vulnerable due to its substantial deficit (negative operating margin) and revenue concentration (closer to one). It is however financially sustainable in equity balance and administrative cost. On the basis of the results obtained in the study using the financial sustainability framework of Tuckman and Chang (1991), one may conclude that only Selangor and Terengganu appear to be efficient and effective. The financial health of the remaining SWIs in the study is less than satisfactory.

However, the results of the study should be interpreted in light of several limitations. The first is that the data used is not the latest. Therefore, the findings may not be necessarily true, currently. Second, our study focused only on Malaysia. Thus, the results may not be generalizable to other *waqf*s in other countries or to privately managed *waqf* institutions. Accordingly, future research should address this. However, the results of the study raised pertinent issues that policy makers should address to ensure the systematic revival of *waqaf* institutions in Malaysia. Consistent with previous studies, our findings found that there was inadequate disclosure and poor accounting practices of *waqf* transactions, equity, liabilities and assets. Most SWIs did not have up-to-date audited financial statements. It was baffling that there were improper classification and treatment of classes of accounts even though the accounts were audited, unqualified and certified by chartered accountants. Additionally, these accounts were even certified by the Office of the Auditor General.

On the basis of the findings of this study, four recommendations are suggested. The first pertains to revenue diversification. It is important for *waqf* institutions not to rely on just one particular source of income. This could be achieved by looking for other viable investment opportunities. Handling divestments would require capacity building or employing qualified investment specialists to competently manage investment risks. Further close attention on revamping idle *waqf* resources could enhance the sustainability of *waqfs*. In Malaysia, the 9th Malaysia Plan (pages 64 and 65) specifically provides for this. It states

> "*a strategic plan will be drawn up to ensure that the income generated from the development of wakaf land will enable state religious authorities to be more self-reliant in developing new wakaf land".*

Self-reliance meant that each SWI should ensure that it relies on multiple sources of revenue equally in order to sustain developmental and operational activities. Second, there is a need for improved accounting practices among the *waqf* institutions to ensure adequate disclosure of *waqf* assets, liabilities, equity, revenue and expenditure. According to Ihsan and Shahul (2011), accounting is a basic requirement for true accountability to be discharged through standardized, clear and transparent reporting. In line with this, there is thus, an urgent need for the standardization of *waqf* accounting to minimise diversity across the SWIs. In Malaysia, a guideline formulated by JAWHAR (Appendix A) is indeed commendable. However, a close examination of the accounts found no SWI actually adopting the framework. As explained elsewhere in the paper, given that JAWHAR has no real power over SWIs, this comes as no surprise.

Despite the various limitations, it is hoped that the results of this study may help other Muslim countries in managing its *waqf*. More importantly, the findings of the study have provided an insight as to how well institutional *mutawallis* are carrying out their tasks- an indispensable ingredient for revitalization of *waqf*. Finally, we would like to emphasize that performance accountability is very significant since a donor to a *waqf* needs to be kept informed as to the purpose for which the funds have been used for and whether the funds have been distributed to the right beneficiaries (Sulaiman, Adnan and Nor Suad, 2009). However, donors of *waqf* assets, having placed their trust on the SIRCs, do not generally establish mechanisms to ensure the successful management of their assets. Similarly, users of *waqf* assets and/or recipients of the resultant economic benefit arising from the employment of *waqf* assets either have little or no say as to how well the institutions are managing the assets to reap maximum benefit. In default, donors (dead or alive) and the recipients (otherwise the public) become absentees and detached from the trusted *waqf* institutions. This situation leads to lapses in accountability. In this regard, assessing the performance of *waqf* institutions will indicate the extent such institutions have discharged their accountability.

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Appendix A: Pro-foma financial statements- JAWHAR

ISLAMIC RELIGIOUS COUNCIL_____
GROUP WAQF FUND
BALANCE SHEET AS AT 31 DECEMBER_____

	Note	RM 20XX	RM 20YY
NON CURRENT ASSETS			
Property, plant and equipment		xxx	xxx
Work in progress		xxx	xxx
Investment		xxx	xxx
CURRENT ASSETS			
Accrued rental income		xx	xx
Cash in hand		xx	xx
Cash at bank		xx	xx
Total Current Assets		**xxx**	**xxx**
CURRENT LIABILITIES			
Accrued expenses		xx	xx
Advance income		xx	xx
Total Current Liabilities		**xxx**	**xxx**
NET CURRENT ASSETS/(LIBILITIES)		**xxx**	**xxx**
		xxx	**xxx**
FINANCED BY:			
General *Waqf* Account		xxx	xxx
Special *Waqf* Account		xxx	xxx
TOTAL GROUP *WAQF* FUND		**xxx**	**xxx**
Long term loan		xxx	xxx
		xxx	**xxx**

ISLAMIC RELIGIOUS COUNCIL_____
GROUP WAQF FUND
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER_____

	Note	RM (Million) 20XX	RM (Million) 20YY
Income		xxx	xxx
		xxx	xxx
Less:			
Expenses		(xxx)	(xxx)
Distribution		(xxx)	(xxx)
Surplus/(Deficit) during the year		xxx	xxx

ISLAMIC RELIGIOUS COUNCIL_____
STATEMENT OF CHANGES IN GROUP WAQF FUND FOR THE YEAR ENDED 31 DECEMBER_____

	RM (Million) 20XX	RM (Million) 20YY
Balance as at 1 January	xxx	xxx
Add: Surplus/(Deficit) during the year	xxx	xxx
Balance as at 31 December	xxx	xxx

ISLAMIC RELIGIOUS COUNCIL_____
GROUP WAQF FUND
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER_____

	RM
Cash Inflow/(outflow) From Operating Activities	
Net income	
General *Waqf*	xx
Special *Waqf*	xx
	xx
Adjustment for noncash items	
Depreciation	xx
Dividend income	xx
Interest income	xx
Trade receivables	xx
Deposits (current asset)	xx
Prepayments	xx
Accrued rental	xx
Trade payable	xx
Deposits (current liability)	(xx)
Security	xx
	xx
Cash Inflow from Investing Activities	
Acquisition of noncurrent assets	(xx)
Work in progress	(xx)
Share investment	(xx)
Dividend income	xx
Interest income	xx
	xx
Increased in cash and cash equivalent	**xxx**
Cash and cash equivalent at beginning of the year	**xxx**
Cash and cash equivalent at the end of the year	**xxx**
Cash and cash equivalent at the end of the year comprise of:	
Cash in hand/Cash at bank	xxx
Fixed deposits	xxx
	xxx

ISLAMIC RELIGIOUS COUNCIL_____
GENERAL/SPECIAL WAQF ACCOUNT
BALANCE SHEET AS AT 31 DECEMBER_____

	Note	RM 20XX	RM 20YY
NON CURRENT ASSETS			
Property, plant and equipment		xxx	xxx
Work in progress		xxx	xxx
Investment		xxx	xxx
CURRENT ASSETS			
Accrued rental income		xx	xx
Cash in hand		xx	xx
Cash at bank		xx	xx
Total Current Assets		**xxx**	**xxx**
CURRENT LIABILITIES			
Accrued expenses		xx	xx
Advance income		xx	xx
Total Current Liabilities		**xxx**	**xxx**
NET CURRENT ASSETS/(LIBILITIES)		**xxx**	**xxx**
		xxx	**xxx**
FINANCED BY:			
General *Waqf* Account		xxx	xxx
Special *Waqf* Account		xxx	xxx
TOTAL GROUP *WAQF* FUND		**xxx**	**xxx**
Long term loan		xxx	xxx
		xxx	**xxx**

STATE ISLAMIC RELIGIOUS COUNCIL___
GENERAL/SPECIAL *WAQF* INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER___

	RM	RM 20XX	Percentage (%)	RM 20YY	Percentage (%)
Income					
Revenues		xxx	%	xxx	
		xxxx		**xxxx**	%
Total Percentage			**%**		**%**
Less Expenses :					
Administrative and general exp.					
General expenses	xxx		%		%
Rental	xxx		%		%
Repairs	xxx		%		%
Insurance	xxx		%		%
Printing and stationery	xxx		%		%
Postage	xxx		%		%
Depreciation	xxx		%		%
Management allowance/fee	xxx		%		%
Utilities	xxx		%		%
Repairs and maintenance of assets	xxx		%		%
Other expenses	xxx	**(xxx)**	%	(xxx)	%
Total Percentage			**%**		**%**
Less Distribution:					
Text books	xx		%		%
Teaching materials	xx		%		%
Scholarship	xx		%		%
Assistance to the poor	xx		%		%
Donation to mosques	xx		%		%
Assistance to orphanage	xx		%		%
Others	xx	**(xxx)**	%	**(xxx)**	%
Total Percentage			**%**		**%**
Accumulated Funds: Current year surplus/(deficit)		**xxx**		**xxx**	
Last year surplus/ (deficit)		**xxx**		**xxx**	
Accumulated surplus/(deficit)		**xxx/(xxx)**		**xxx/(xxx)**	
Total Percentage			**%**		**%**